

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 EA-09 ISO-00 AID-05 CIAE-00 COME-00

FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15

STR-04 CEA-01 L-03 H-02 IO-10 PRS-01 PA-02 AGR-10

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P R 261552Z NOV 75

FM AMEMBASSY THE HAGUE

TO SECSTATE WASHDC PRIORITY 7099

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY CANBERRA

AMEMBASSY JAKARTA

AMEMBASSY LONDON

AMEMBASSY MANILA

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

AMEMBASSY WELLINGTON

UNCLAS THE HAGUE 6077

MANILA FOR USED ADE

PARIS PASS TO USREP OECD

E.O. 11652: N/A

TAGS: EAID, NL, ID

SUBJECT: IGGI-18: SUMMARY OF MEETING

1. SUMMARY. MEETING IN AMSTERDAM NOVEMBER 25 OF CON-
SORTIUM ON AID TO INDONESIA CONCENTRATED ON PROBLEMS OF
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RESOURCE GAP AND FUTURE DEBT SERVICE. END SUMMARY.

2. EIGHTEENTH MEETING OF INTER-GOVERNMENTAL GROUP ON INDONESIA (IGGI) FOCUSED ATTENTION ON TWO PROBLEMS-- A) INCREASING STRAIN WHICH INFLATION AND INTERNATIONAL PAYMENTS DEFICITS ARE PLACING ON INDONESIA'S RESOURCES AND, B) INDONESIA'S ABILITY TO SERVICE ITS FUTURE DEBT. THESE PROBLEMS WERE BROUGHT OUT IN STATEMENTS BY CHAIRMAN OF INDONESIAN DELEGATION, GOVERNOR OF BANK OF INDONESIA RACHMAT SALEH, BY GUNNAR TOMASSON OF INTERNATIONAL MONETARY FUND AND BY JEAN BANETH OF INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT.

3. AS A RESULT OF THESE PROBLEMS, INDONESIAN GOVERNMENT IS NOW REASSESSING ITS INVESTMENT PROGRAM WITH A VIEW TOWARD BRINGING IT INTO LINE WITH AVAILABLE RESOURCES. THE GOVERNMENT IS REVIEWING A SERIES OF BUDGETARY AND POLICY MEASURES THAT SHOULD HAVE AN IMPACT ON THE COUNTRY'S BALANCE OF PAYMENTS AS WELL AS ITS DOMESTIC REVENUES AND EXPENDITURES. IN ADDITION, INDONESIA'S GOVERNMENT IS TAKING A HARD LOOK AT EXPORT CREDITS AND ALL MEDIUM-TERM BORROWING IN ORDER TO INSURE THAT THE DEBT SERVICE STAYS WITHIN REASONABLE LIMITS. RACHMAT SALEH COULD GIVE NO INDICATION HOW THE REVIEW IS GOING TO COME OUT, ALTHOUGH IT IS TIMED TO BE READY BEFORE PREPARATION OF THE NEXT BUDGET.

4. BANETH SAID THAT THE WORLD BANK IS DOING A COMPLETE REVIEW AND UPDATE OF THE DEBT SERVICE PROBLEM FOR COMPLETION POSSIBLY WITHIN NEXT COUPLE OF MONTHS BUT AT ANY RATE BEFORE NEXT IGGI MEETING. REVIEW WILL INCLUDE MEDIUM AS WELL AS SHORT-RUN PROJECTIONS. BANETH EMPHASIZED THAT, IN SPITE OF THE PROBLEMS, THE BANK HAS GREAT FAITH IN INDONESIA'S DEVELOPMENT PROGRAM AND IS PLANNING TO AUTHORIZE A \$500 MILLION LOAN IN 1975-1976 ON STANDARD BANK TERMS, NOT THROUGH "THIRD WINDOW". (NO OTHER DONOR INDICATED ANY FUTURE COMMITMENT.) BANETH WAS UNABLE ACCURATELY TO PROJECT REAL GROWTH RATE FOR INDONESIA, BUT EVEN WITH INDONESIA'S PROBLEMS ESTIMATED IT IN RANGE OF SEVEN TO 10 PERCENT OVER NEXT FIVE YEARS.

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5. ON PERTAMINA, INDONESIANS SAID THAT NO MORE SHORT-TERM DEBTS WILL COME DUE AFTER MARCH 1976, AND THAT STRICT ACTIONS ARE BEING TAKEN TO DIVEST PERTAMINA OF ITS NON-OIL ENTERPRISES. GOVERNMENT IS ALSO EXPLORING METHODS TO REGAIN 346 BILLION RUPIAHS IN BACK TAXES FROM PERTAMINA, INCLUDING POSSIBILITY OF WRITING OFF TAX DEBTS AGAINST NON-OIL ASSETS WHICH GOVERNMENT

HAS TAKEN OVER. ANOTHER METHOD UNDER CONSIDERATION IS FOR GOVERNMENT TO INCREASE ITS EQUITY POSITION IN PERTAMINA.

6. INDONESIANS RESPONDED TO QUESTION ON DROP IN FOREIGN INVESTMENTS BY ACKNOWLEDGING THAT THERE WAS CONFUSION AMONG INVESTORS OVER GOVERNMENT GUIDELINES, WHICH GOVERNMENT HOPES TO CLARIFY. THEY ALSO POINTED OUT THAT THERE HAS BEEN HEALTHY DROP IN INVESTMENT IN LUXURY REAL ESTATE AND INCREASED EMPHASIS ON RURAL CONSTRUCTION PROJECTS SUCH AS CLINICS AND SCHOOLS, PRIMARILY BECAUSE OF GOVERNMENT SUBSIDY. FINALLY, THEY MENTIONED THAT SHELL HAS DECIDED TO INVEST \$1 BILLION IN EXPLOITATION OF INDONESIAN COAL, A FIGURE WHICH WAS NOT INCLUDED IN FOREIGN INVESTMENT SUM MADE PUBLIC FOR IGGI.

7. TO GENERAL CONFUSION OF DONORS, INDONESIANS PRESENTED LIST OF COMMITMENTS AND OF IMPLEMENTATION OF COMMITMENTS. GROUP AGREED TO ASK BANK TO DRAW UP TABLES OF DONOR ACTIVITIES, USING STANDARDIZED TERMS, FOR PRESENTATION AT NEXT IGGI MEETING. THIS WILL REQUIRE COLLABORATION BETWEEN BANK, INDONESIANS AND ALL DONORS. ON QUESTION OF IMPLEMENTATION, DONORS EXPRESSED SUPPORT FOR ACCELERATION THAT HAS TAKEN PLACE IN DISBURSEMENTS OF PROJECT AID.

8. AGENDA ITEM SEVEN--INVESTMENT PLAN FOR 1976-1977-- WAS NOT DISCUSSED BECAUSE INDONESIANS, TAXED BY CURRENT REVIEW, WERE NOT PREPARED.

9. FOR NEXT MEETING, BANK WILL PREPARE ANALYSIS OF OVERALL INVESTMENT PROGRAM, WHICH WILL INCLUDE SECTORAL UNCLASSIFIED

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AND REGIONAL DISCUSSIONS. IF DONORS WANT, SEPARATE MEETINGS CAN BE ARRANGED ON EACH SECTOR, INCLUDING IMPORTANCE OF ACTIVITIES FOR GENERATION OF EMPLOYMENT; THIS WILL BE DECIDED AT NEXT PLENARY. ADDITIONAL AGENDA ITEMS WILL BE: ROLE OF PRIVATE INVESTMENT, REVISED ANALYSIS BY BANK OF PUBLIC DEBT PROBLEM, AND POLICIES NOW UNDER REVIEW WITHIN GOVERNMENT OF INDONESIA LOOKING TOWARD READJUSTMENTS IN BUDGET AND INVESTMENTS.

10. GROUP AGREED THAT 19TH MEETING WILL TAKE PLACE IN AMSTERDAM DURING SECOND HALF OF MAY, 1976. (ABOVE MESSAGE WAS PREPARED AFTER DEPARTURE OF MRS. LITTLEFIELD AND MR. NIBLOCK, BUT IS BASED ON OBSERVATIONS BY MRS. LITTLEFIELD.)

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